

**Massachusetts Community College**  
(A Component Unit of the Commonwealth of Massachusetts)  
**Management's Discussion and Analysis**

As management of the Massachusetts Community College, we offer readers of the Massachusetts Community College's financial statements this narrative overview and analysis of the financial activities of the Massachusetts Community College for the fiscal year ended June 30, 2001. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages X – Y of this report.

**Financial Highlights**

- The assets of the Massachusetts Community College exceeded its liabilities at the close of the most recent fiscal year by \$7,525,046 (*net assets*). Of this amount, \$1,173,428 is classified as unrestricted net assets. These unrestricted net assets may be used to meet the College's ongoing obligations to its stakeholders. However, the Trustees of the College may apportion these net assets in the future to a number of sources, including: capital expansion funds; capital repair funds; new program funds; and long-term investment funds.
- The College's total net assets increased by \$20,954. This is largely due to an increase in operating revenues of \$1,727,882 and increases in Commonwealth appropriations and investment income of \$2,930,997. However, there was also a decrease in unrestricted net assets due to an increase in operational expenses of \$4,555,084, outpacing the increase in operational revenue.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Massachusetts Community College's basic financial statements. The Massachusetts Community College's basic financial statements comprise two components: 1) the financial statements and 2) the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**The Financial Statements.** The financial statements are designed to provide readers with a broad overview of the Massachusetts Community College's finances in a manner similar to a private – sector College.

The *Statement of Net Assets* presents information on all of the Massachusetts Community College's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Massachusetts Community College is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the College's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. the accrual for compensated absences.)

The *Statement of Cash Flows* is reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g. tuition and fees) and disbursements (e.g. cash paid to employees for services.) The Government Accounting Standards Board (GASB) Statements 34 and 35 require this method to be used.

The financial statements can be found on pages A-C of this report.

The Massachusetts Community College reports its activity as a business – type activity using the full accrual measurement focus and basis of accounting. The College is a component unit of the Commonwealth of Massachusetts. Therefore, the results of the College’s operations, its net assets and cash flows are also summarized in the Commonwealth’s Comprehensive Annual Financial Report in its government – wide financial statements.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages M – S of this report.

**Other information.** In addition to the financial statements and accompanying notes, this report also contains certain *required supplementary information* concerning the Massachusetts Community College’s .....

### Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Massachusetts Community College’s financial position. In the case of the Massachusetts Community College, assets exceeded liabilities by \$7,684,872 at the close of the most recent fiscal year.

By far the largest portion of the Massachusetts Community College’s net assets (78 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt, including capital leases, used to acquire those assets that is still outstanding. The Massachusetts Community College uses these capital assets to provide services to students, faculty and administration; consequently, these assets are *not* available for future spending. Although the Massachusetts Community College’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Massachusetts Community College’s Net Assets

	June 30, 2001
Current and other assets	\$9,496,961
Capital assets	6,502,406
Total assets	16,199,150
Long – term liabilities outstanding	1,679,357
Other liabilities	6,994,747
Total liabilities	8,674,104
Net Assets:	

Invested in capital assets, net of related debt	6,004,913
Restricted	346,705
Unrestricted	1,173,428
Total net assets	\$7,525,046

An additional portion of the Massachusetts Community College's net assets (4.6 percent) represents scholarships and fellowships that are subject to external restrictions on how they must be used. The remaining balance of *unrestricted net assets* (\$1,173,428) may be used to meet the College's ongoing obligations to its stakeholders.

At the end of the current fiscal year, the Massachusetts Community College is able to report positive balances in all three categories of net assets. As this is the first year of implementation of GASB 34 and 35, no comparison to the prior year is required.

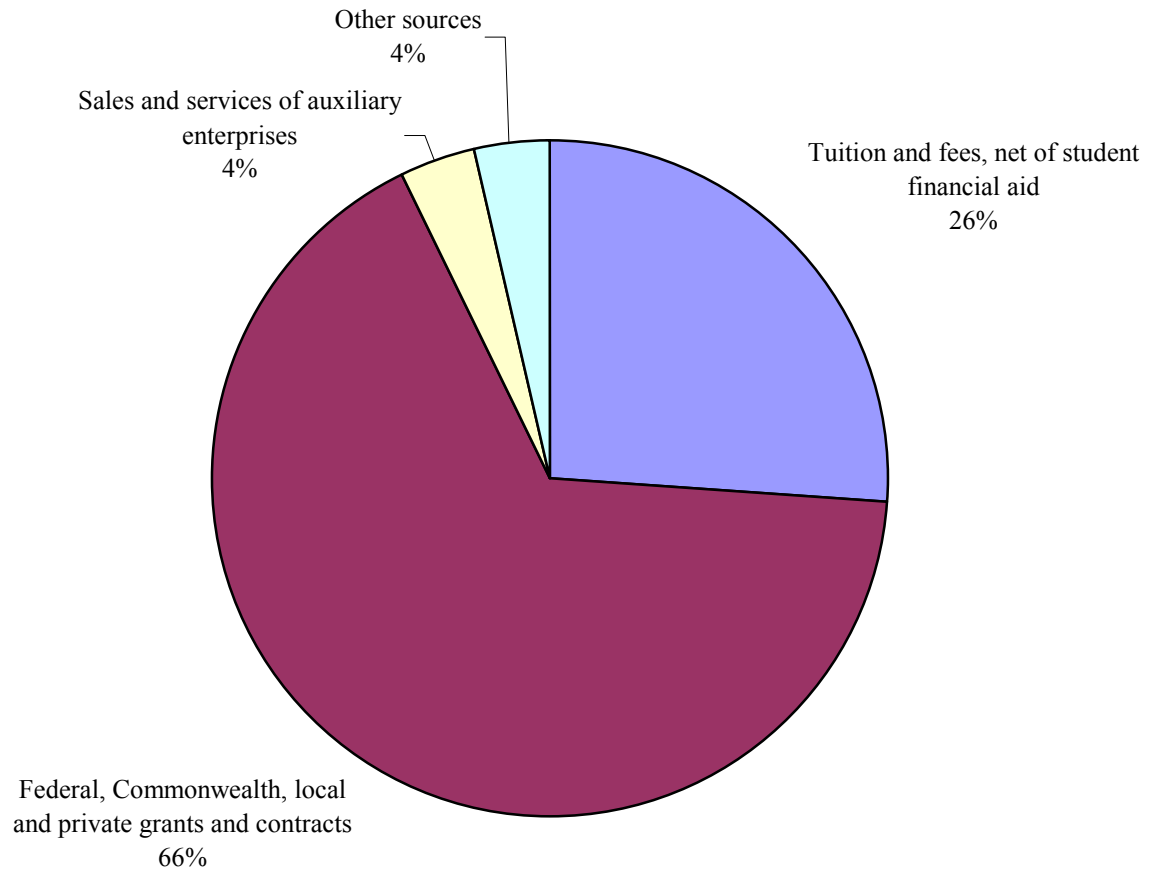
Restricted net assets increased by \$296,214, entirely from scholarships and grants being received.

The College's net assets increased by \$20,954 during the current fiscal year. This increase is entirely due to operations. Though the College added \$350,799 in capital assets this year, the depreciation expense on its entire amount of capital assets was \$844,252, also declining net assets.

#### Massachusetts Community College's Changes in Net Assets

	For the Fiscal Year Ended June 30, 2001
Operating Revenues:	
Tuition and fees	\$ 9,532,088
Student Financial Aid (contra revenue)	(5,686,667)
Operating grants and contributions	9,741,582
Sales and services of auxiliary enterprises and other sources	1,075,579
Total operating revenues	14,662,582
Operating Expenses:	
Instruction	16,252,182
Academic support	4,870,569
Student services	6,894,127
Operations and maintenance of plant	4,422,461
Scholarships	1,421,667
Institutional support	4,617,066
Depreciation	844,252
Total operating expenses	39,322,324
Net operating loss	(24,659,742)
Nonoperating revenues (expenses):	
State appropriation, including fringe benefits provided to employees by the Commonwealth, net of Tuition remitted to the Commonwealth	24,235,132
Investment income	441,810
Total nonoperating revenues	24,680,696
Income before other revenues, expenses, gains or losses	20,954
Capital appropriations	-0-
Increase in net assets	20,954
Net assets – July 1, 2000	7,504,092
Net assets – June 30, 2001	\$7,525,046

## Massachusetts Community College - Operating Revenues by Source



Highlights of operating revenue activity for the year include:

- Increases of over 7% or \$662,544 in tuition and fees and an increase of 21% or \$1,119,049 in student financial aid. Most of this is attributable to higher enrollment(??) and increases in fees.
- Increases of 22% or \$2,118,390 in federal, Commonwealth, local and private grants and contracts.
- Increases of over 31% or \$164,610 in sales and services of auxiliary enterprises and other sources due to higher enrollment (??)

Tuition and fees received by Massachusetts Community College include the following:

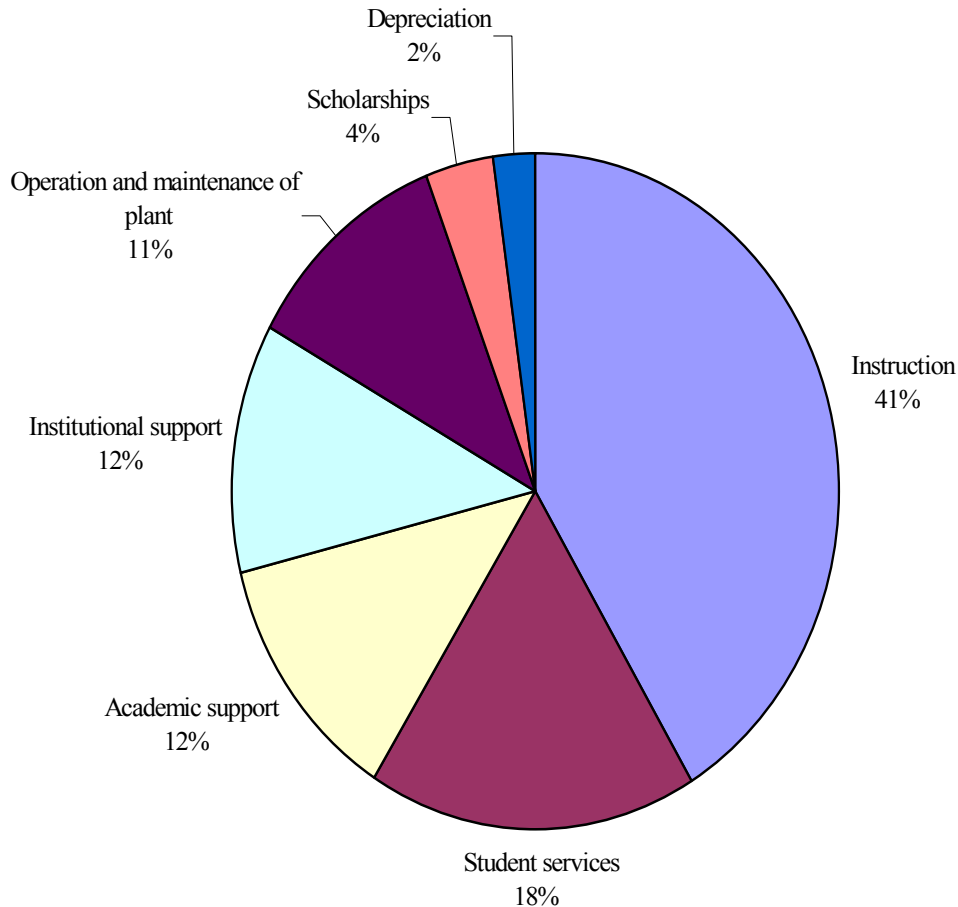
	June 30, 2001	June 30, 2000	Change
Tuition			
Student Activity Fees:			
A			
B			
C			
D			
Tuition waived or remitted			

Major grants and contracts received by Massachusetts Community College for the year included the following:

- ABC grant from DEF in the amount of \$\$\$\$ to study the ....., an increase (decrease) from the previous fiscal year.
- HIJ grant from LMN in the amount of \$\$\$\$ to study the ....., an increase (decrease) from the previous fiscal year.

Auxiliary operations enterprises include the operation of the student bookstore, food service and conference operations. The revenue generated from these operations for the fiscal year was \$536,154, an increase of 6% or \$30,908 from the previous fiscal year.

## Massachusetts Community College - Operating Expenses by Source



Highlights of operating expense activity include:

- Increases of 18% or \$2,519,359 in instructional costs, 27% or \$297,762 in scholarships not included in student financial aid, 12% or \$493,597 in institutional support and 34% or \$1,248,909 in academic support, all related to higher enrollments (??).
- A slight decrease of \$135,599 in operations and maintenance costs.

*INSERT COMPARISON BY FUNCTION ACCORDING TO IPEDS IN TABULAR FORM.*

For nonoperating revenues and expenses, the Commonwealth's appropriation, including fringe benefits, net of tuition remissions increased by 13% or \$2,817,988. Components of this include the Commonwealth's fringe benefits provided for employees on the Commonwealth's payroll,

which increased by over 35% or \$1,161,909 due to higher pension costs. Tuition remitted to the Commonwealth decreased by 36% or \$625,764 (EXPLAIN WHY THIS IS...) Finally, investment income was up by over 34% or \$113,009 due to increased short-term investment activity.

### *Loss from Operations*

The following schedule presents the Massachusetts Community College's incurred losses from operations for the fiscal year ended June 30, 2001 and 2000:

	Fiscal Year Ended June 30, 2001	Fiscal Year Ended June 30, 2000	Change
Tuition and Fee Revenue	\$ 9,532,088	\$ 8,869,544	\$ 662,544
Other Revenue, net of Student Financial Aid	5,130,494	4,065,156	1,065,338
Operational Expenses	39,322,324	34,767,240	4,555,084
<b>Operating Loss</b>	<b>(24,659,742)</b>	<b>(21,832,540)</b>	<b>(2,827,202)</b>
Commonwealth direct appropriations, fringe benefits for employees on the Commonwealth's payroll, net of remitted tuition to the Commonwealth	\$24,235,132	\$21,417,144	\$2,817,988
Investment Income	445,564	332,555	113,009
Net Income (Loss)	\$20,954	\$(82,841)	\$103,795

Due to the nature of public higher education, institutions incur a loss from operations. The Commonwealth's Board of Higher Education presets tuition. The College sets fees and other charges. Commonwealth appropriations to the College made up the loss from operations not made up by tuition and fees. The College, with the purpose of balancing educational and operational needs with tuition and fee revenue, approves budgets to mitigate losses after Commonwealth appropriations.

### **Capital Assets and Debts of the College**

**Capital Assets.** The Massachusetts Community College's investment in capital assets as of June 30, 2001 amounts to \$6,502,406, net of accumulated depreciation. This investment in capital assets includes, land, building, (including improvements,) furnishings and equipment, (including the cost of capital leases) and books. Capital assets decreased during the year by 7% or \$493,453. This decrease was due to depreciation expense outpacing purchases.

Only furnishings and equipment were purchased this year. Major purchases included:

- ABC furniture for XYX department at a cost of \$x,xxx
- DEF equipment for JJJ department at a cost of \$x,xxx, and
- HIJ furniture for XYZ department at a cost of \$x,xxx.

All capital asset purchases are pre-approved by the Board of Trustees and are included in the College's capital spending plan submitted to the Board of Higher Education and the Commonwealth's fiscal affairs division. Additional information about the Massachusetts Community College's capital assets can be found in note 7 on page X of this report.

**Long-Term Debt.** The Massachusetts Community College carries no long – term debt, other than accruals for compensated absences and long-term portions of capital lease obligations. The accrual for compensated absences consists of the long-term portion of sick and vacation pay relating to employees on the College's payroll. The long-term portion of capital lease obligations amounts to \$172,253, net of related interest as of June 30, 2001, a decrease of \$xxx,xxx.

### **Economic Factors and Next Year's Tuition and Student Fee Rates**

The seasonally adjusted unemployment rate for the Commonwealth of Massachusetts within which the Massachusetts Community College primarily draws students rose from 2.7% in June of 2000 to 3.4% in June of 2001, according to the Federal Reserve Bank of Boston. This compares to an increase from 4.0% to 4.5%, respectively on a national level. The trend is that unemployment will rise due to the oncoming recession.

The Board of Higher Education is projecting a potential tuition hike due to the nation's economic slowdown and a weak economy. The resulting weak tax collections may result in a lower appropriation from the Commonwealth in the future. Tuition was cut four times from 1996 through 1999 and was frozen in fiscal 2000 and 2001. Mandatory student fees may also rise to fill the College's operational needs.

### **Requests for Information**

This financial report is designed to provide a general overview of the Massachusetts Community College's finances for all those with an interest in the College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Fiscal Officer, 111 ABC Avenue, Massachusetts Community College, Anytown, Massachusetts, 00000.